



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

June 29, 2009

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To: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to be "W. T. Fujioka", written over a horizontal line.

SACRAMENTO UPDATE

This memorandum contains an update on the Assembly vote on a plan to address the State Budget crisis, and a pursuit of County position on a bill to reform the State's mandated claims reimbursement process.

State Budget

Assembly Vote on the State Budget in the Third Extraordinary Session

Late Sunday evening, the Assembly approved a \$23.4 million majority-vote State Budget plan which consists of spending reductions, tax and fee increases, and other accounting maneuvers in order to address the State's \$19.6 billion deficit and establish an estimated \$3.8 billion reserve. The budget plan did not receive any Assembly Republicans votes.

The approved plan contains a revenue package which includes: 1) a 9.9 percent oil severance tax to raise an estimated \$805 million; 2) a \$1.50 increase in the cigarette excise tax which would generate about \$1 billion; and 3) a \$15 per vehicle registration fee for an estimated \$200 million to fund State park operations. However, in a prepared statement, Governor Schwarzenegger indicated this morning that he would veto the Assembly Democrats majority-vote plan because it contains tax increases that punish California taxpayers. The Governor further indicated that it is time for the Legislature to send him "...a budget that solves the entire deficit without raising taxes."

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At last night's hearing, Assembly Members debated various bills which contain the same budget solutions they considered last week. This time, however, the budget bills were modified to be majority-vote bills and were taken up as part of the Third Extraordinary Session. In their current form, if these bills are signed by the Governor, they will take effect 90 days after the adjournment of the Extraordinary Session.

Neither language or corresponding analysis were available at yesterday's hearing for the bills described below. Most of the bills were released in print today and some of them range in size from 100 to nearly 500 pages in length. We are working with affected departments to determine the impact of these measures to the County. The following is a summary of the bills debated and passed in the Assembly:

ABX3 37 (Evans) proposes to impose reductions on the Superior Courts, Corrections and the Department of Justice. The bill would allow the courts to close one day a month and would limit reimbursement to a county for deputy sheriff court security costs to that of a mid-range deputy. It also would require the courts to renegotiate a memorandum of understanding (MOU) with a sheriff or county to reduce the compensation provided because of the reduction in the need for security services that would result from the closure of the courts. The Sheriff's Department opposes the proposal to require renegotiation of an MOU because it would impose significant costs on the County, and it would provide very little incentive for local courts to work with sheriffs and boards of supervisors. The bill passed the Assembly by a vote of 47 to 28, and now proceeds to the Senate.

ABX3 39 (Evans) is the Revenue Trailer Bill, and proposes to raise \$2.1 billion by: 1) increasing the fee on cigarettes by \$1.50 for an estimated \$1 billion; 2) imposing a 9.9 percent fee on oil extracted from California for an estimated \$805 million; 3) creating a \$15 vehicle license fee surcharge on each registered vehicle in California to fund State Park operations, which would generate \$200 million; and 4) imposing a 4.8 percent per parcel fee to generate \$119 million to fund Cal-Fire. The bill passed the Assembly by a vote of 44 to 30, and now proceeds to the Senate.

ABX3 40 (Evans) is the Transportation Trailer Bill, and proposes a number of transportation related fees, including a \$28 increase on basic drivers' licenses. This bill also includes the proposed realignment of \$300 million in Vehicle License Fee revenues to fund a new increased county share of cost in the CalWORKs Program. The bill passed the Assembly by a vote of 46 to 29, and now proceeds to the Senate.

It should be noted that the proposed reduction of the local share of gasoline tax revenues (Highway User Tax Account) resulting in a County loss of

\$109 million is not included in ABX3 40. However, this proposal is included in ABX3 4 and SBX3 18 which are companion legislation to ABX3 40. These bills were not considered by the Assembly yesterday but are expected to be taken up soon in the Senate.

ABX3 41 (Evans) is the Public Resources Trailer Bill, and authorizes various State commissions to spend Federal Stimulus dollars on projects such as forestry management, underground storage tank cleanup, energy efficiency and conservation projects. The bill passed the Assembly by a vote of 45 to 29, and now proceeds to the Senate.

ABX3 42 (Evans) is the Education Finance Trailer Bill, and proposes significant reductions to education and increases fees for community colleges. The bill passed the Assembly by a vote of 43 to 30, and now proceeds to the Senate.

ABX3 43 (Evans) is the Human Services Trailer Bill, and proposes statutory changes necessary to enact modifications to the 2009 State Budget Act. Some of the changes include: 1) In-Home Supportive Services (IHSS) recipient services reductions; 2) exemptions from CalWORKs work requirements for parents of young children; 3) 10 percent reduction to Foster Care and Group Home provider rates; and 4) elimination of the Statewide Fingerprint Imaging System. The bill also authorizes the use of Temporary Assistance for Needy Families Emergency Contingency Fund for subsidized employment. The bill passed the Assembly by a vote of 46 to 27, and now proceeds to the Senate.

ABX3 44 (Evans) is the Health Trailer Bill, and proposes a number of reductions in health, mental health, public health, and developmental services. Among many of its provisions, it would establish a Certified Public Expenditure process for county mental health plans to obtain increased Federal reimbursement for certain expenditures within the Medi-Cal Program for mental health services. The bill passed the Assembly by a vote of 47 to 28, and now proceeds to the Senate.

ABX3 45 (Evans) is the Developmental Services Trailer Bill, and proposes a number of reductions, while providing the authority for the State to achieve additional Federal funds. The bill passed the Assembly by a vote of 48 to 28, and now proceeds to the Senate.

ABX3 46 (Evans) is the General Government Trailer Bill, and proposes to authorize the reorganization of some State agencies. Among its provisions, the bill includes language which would authorize a transfer of \$2.8 million from the Exposition Park Improvement Fund to the State General Fund. According to the Natural History Museum, the proposal may have a significant impact on the ability of the State to

maintain and to fund any future needed improvements for the benefit of all institutions in the park. The bill passed the Assembly by a vote of 46 to 28, and now proceeds to the Senate.

SBX3 16 (Ducheny) proposes various adjustments to achieve \$7.9 billion in State General Fund savings in FY 2009-10. This bill includes: 1) \$2 billion in reductions in Higher Education; 2) \$1 billion in reductions to various health programs including nursing home rates, HIV/AIDS Drugs, and Medi-Cal pharmacy reforms; 3) \$1.09 billion in reductions to Human Services programs including CalWORKs, IHSS, and the elimination of the Proposition 36 Program; 4) \$1.2 billion in one-time savings by deferring State employees payroll checks; 5) \$350 million in savings from the redirection of community redevelopment revenues to fund K-12 schools; 6) \$83 million from the suspension of SB 90 local mandates; and 7) \$34.7 million from the suspension of the Williamson Act, among other proposals. The bill passed the Assembly by a vote of 46 to 27.

SBX3 17 (Ducheny) would provide \$4.4 billion in revenue solutions, without raising taxes, including the acceleration of quarterly withholding, and the imposition of sales tax on internet sales. The bill passed the Assembly by a vote of 43 to 30.

The Senate convened this morning and has been deliberating on the Assembly majority-vote budget plan. As of 4:00 p.m., they passed SBX3 16 by a majority-vote of 22 to 17, and SBX3 17 by a majority-vote of 24 to 16. Both measures now proceed to the Governor who has threatened to veto both bills.

Pursuit of County Position on Legislation

AB 548 (Krikorian), as amended on June 1, 2009, would reform the mandated claims reimbursement process by requiring the State Controller to initiate an audit of a local mandate reimbursement claim within four years from the time the claim was filed. Under existing law, an audit must be initiated within three years from the time the reimbursement payment on the claim was made by the State.

According to the author, the current process for the payment of mandated claims to school districts and local agencies is inefficient and unfair, and may take up to eight years for local agencies to obtain reimbursement for work associated with a State mandate. The author notes that these delays result from several factors: 1) when a new mandate is established, a local agency files a test claim with the Commission on State Mandates (CSM) and, under current law, there is no time limit within which that test claim must be addressed by the CSM; 2) the Legislature is significantly behind in appropriating funds to pay for mandated reimbursements; and 3) the State Controller has up to three years to perform audits on reimbursed claims, which makes local

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agencies reluctant to spend the reimbursement funds until the three-year audit window has been closed.

The Auditor Controller indicates that AB 548 would improve the mandated claims process by establishing a four-year audit liability period from the date the claim is filed, and it would remove the existing burdensome requirement to retain supporting documents beyond their normal retention period. Currently, this period is uncertain as it depends on the date when the State makes the reimbursement to the County. The Auditor Controller and this office support AB 548. Support for AB 548 is consistent with existing Board policy to support streamlining of administrative mandates to focus limited resources on services. **Therefore, the Sacramento advocates will support AB 548.**

AB 548 is supported by the American Federation of State, County, and Municipal Employees; California State Association of Counties; Education Coalition; California Teachers Association; Elk Grove Unified School District; Los Angeles Unified School District; California Association of School Business Officials; Service Employees International Union; California County Superintendents Educational Services Association; and the San Diego County Board of Supervisors. There is no registered opposition.

AB 548 passed the Assembly Floor on June 3, 2009, by a vote of 78 to 0, and is scheduled for a hearing on July 1, 2009 in the Senate Local Government Committee.

We will continue to keep you advised.

WTF:GK
DW/MR:IGEA:er

c: All Department Heads
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Independent Cities Association
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